

Message Text

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PAGE 01 MEXICO 15993 212144Z
ACTION ARA-10

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SSO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07
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C O N F I D E N T I A L MEXICO 15993

E.O. 11652:GDS
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SUBJ: BANKS RE-ENTER FOREIGN EXCHANGE MARKET.

1. SUMMARY: BANK OF MEXICO HAS PERMITTED THE COMMERICAL
BANKS TO RE-ENTER THE FOREIGN EXCHANGE MARKET. SEVERAL
NEWSPAPER ARTICLES STATE THAT THIS IMPLIES THAT PESO IS
NOT AT ITS "DEFINITIVE" LEVEL. END SUMMARY.

2. EFFECTIVE DECEMBER 20, COMMERICAL BANKS WERE PERMITTED
TO RE-ENTER THE FOREIGN EXCHANGE MARKET FOR THEIR OWN ACCOUNT.
SINCE NOV 22, THE BANKS HAD BEEN EXCLUDED FROM THE
MARKET, AND FOREIGN EXCHANGE TRANSACTIONS HAD BEEN DONE FOR
THE ACCOUNT OF BROKERAGE HOUSES. BROKERAGE HOUSES CAN
CONTINUE TO ENGAGE IN FOREIGN EXCHANGE TRANSACTIONS.

3. THE BANK OF MEXICO APPARENTLY WANTED TO MAKE THIS CHANGE
WITHOUT ANY PUBLICITY, BUT WORD SOON CIRCULATED AND MOST
MEXICO CITY NEWSPAPERS OF DEC 21 CARRY THE STORY;
SEVERAL HEADLINE THE STORY. FOR THE PUBLIC, THERE IS
VIRTUALLY NO DIFFERENCE IN THE WAY THEY BUY AND SELL
FOREIGN EXCHANGE SINCE MOST TRANSACTIONS WERE HANDLED
THROUGH BANKS.
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PAGE 02 MEXICO 15993 212144Z

4. THE EXCLUSION OF THE COMMERICAL BANKS FROM THE
FOREIGN EXCHANGE MARKET WAS CONSIDERED A TEMPORARY
MEASURE. A BANK OF MEXICO SOURCE TOLD US THAT HIS
TIME WAS PICKED BECAUSE THE CHRISTMAS HOLIDAYS HAVE
BEGUN AND THE FOREIGN EXCHANGE MARKET IS NORMALLY QUIET.

ALSO, THE SUPPLY OF DOLLARS IS RELATIVELY STRONG AT THIS TIME OF YEAR. VERY LIKELY, THE DEMAND FOR DOLLARS IS DOWN BECAUSE OF THE DECLINE IN OUTWARD TOURISM. APPARENTLY THE BANK OF MEXICO IS REMAINING OUTSIDE THE MARKET FOR THE TIME BEING, BUT ACCORDING TO OUR SOURCE AND THE NEWSPAPER ACCOUNTS, THE BANK OF MEXICO IS RESERVING THE RIGHT TO INTERVENE WHEN AND IF NECESSARY. OUR SOURCE DECLINED TO ELABORATE ON WHAT THIS MEANT, EXCEPT THAT THE CENTRAL BANK WOULD PREVENT "WIDE" SWINGS IN THE RATE.

5. THE NEWSPAPER ACCOUNTS IMPLY THAT THE PRESENT EXCHANGE RATE IS SUSTAINABLE. FOR EXAMPLE, EXCELSIOR STATES "THERE IS A FIRM BELIEF IN FINANCIAL CIRCLES THAT THE PESO IS NOW SEEKING ITS DEFINITIVE LEVEL." HERALDO SAYS THE NEW MEASURE "IS A CLEAR INDICATION THAT THE PESO IS REACHING ITS TRUE LEVEL."

6. WHILE THE ARTICLES DO NOT SUGGEST THAT THE BANK OF MEXICO WILL SUPPORT THE PRESENT RATE, WE CANNOT HELP BUT BE STRUCK BY YET ANOTHER INDICATION THAT MEXICANS WHO SHOULD KNOW BETTER SEEM TO THINK THAT A 20:1 EXCHANGE RATE IS HERE TO STAY.

7. THE EXCHANGE MARKET WAS REPORTEDLY CALM ON DECEMBER 21, WITH BUYING RATE OF ABOUT 20.5 AND SELLING RATES AROUND 20.175. THIS IS ROUGHLY THE SAME AS DECEMBER 17 QUOTATIONS.
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